

1 **DIRECT TESTIMONY OF**

2 **JULIUS A. WRIGHT, Ph.D**

3 **ON BEHALF OF**

4 **SOUTH CAROLINA ELECTRIC & GAS COMPANY**

5 **DOCKET NO. 2008-447-EG**

6
I. INTRODUCTION

7 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

8 A. My name is Julius A. Wright, President, J.A. Wright & Associates, Inc.,
9 3307 Loridan Way, Atlanta, Georgia 30339.

10 **Q. FOR WHOM ARE YOU PRESENTING TESTIMONY IN THIS**
11 **DOCKET?**

12 A. I am presenting testimony on behalf of South Carolina Electric & Gas
13 Company (“SCE&G” or “Company”).

14 **Q. DR. WRIGHT, PLEASE SUMMARIZE YOUR EDUCATION AND**
15 **PROFESSIONAL EXPERIENCE.**

16 A. I received a Bachelor of Science degree in Chemistry from Valdosta
17 State College in 1974. I later earned an MBA in Finance from Georgia State
18 University in Atlanta, Georgia, and a Masters and Ph.D. in Economics from
19 North Carolina State University, where I focused on regulatory and

1 environmental economics. I have completed the Michigan State Regulatory
2 Course, several National Association of Regulatory Utility Commissioners
3 courses on regulation, and various management and investment seminars.

4 I am the President of J. A. Wright & Associates, Inc. Prior to starting
5 my practice, I was a Client Partner for AT&T Solutions, Utilities and Energy
6 Practice. Before that affiliation, I was a Utility Consultant for three years with
7 EDS. Prior to that, I was a Commissioner on the North Carolina Utilities
8 Commission. I also served three terms in the North Carolina State Senate.
9 During the time that I was a Senator, I was a Senior Process Engineer with
10 Corning Glass in its Fiber Optic Division. Prior to my work at Corning, I
11 worked for four years in the chemical industry, first as a Process Chemist and
12 later as a Senior Project Engineer.

13 In the course of my consulting work, I have addressed various
14 regulatory issues, including: integrated resource planning; regulatory strategies
15 for dealing with the transition to competitive electric and telecommunications
16 markets; issues related to potentially strandable costs; prudence reviews;
17 avoided cost determinations; rate forecasting; gas integrated resource planning;
18 and electric utility telecommunications strategies. My detailed resume is
19 provided as an appendix to this testimony.

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 A. On March 4, 2009, the Public Service Commission of South Carolina
22 (“Commission”) issued a Notice of Filing stating that the South Carolina

1 Office of Regulatory Staff had filed an Amended Petition to Establish a Docket
2 to Consider Implementing the Requirements of Section 1307 (State
3 Consideration of Smart Grid) and Section 532 (Energy Efficiency Programs) of
4 the Energy Independence and Security Act of 2007 (“EISA”). The purpose of
5 my testimony is to discuss with the Commission whether or not it is necessary
6 to adopt the standards set forth in sections 532(a)(16) and (17) and sections
7 532(b)(5) and (6) of the EISA concerning resource planning and investments in
8 energy efficiency with respect to electric and natural gas utilities and electric
9 and natural gas rate designs that promote energy efficiency investments.

10

11

II. BACKGROUND

12

13 **Q. PLEASE PROVIDE A HISTORICAL PERSPECTIVE ON THE**
14 **INITIATION OF THIS PROCEEDING.**

15 A.

The current docket was initiated in response to certain provisions in
16 Sections 1307 and 532 of the EISA, which amended certain sections of the
17 Public Utility Regulatory Policies Act of 1978 (“PURPA”). PURPA’s stated
18 purpose with respect to both electric and natural gas utilities was, in general, to
19 promote public policy standards or objectives that encouraged the conservation
20 of energy resources. In promoting this agenda, PURPA originally proposed
21 several federal standards for both electric and natural gas utilities. When
22 PURPA was amended by the Energy Policy Act of 1992 (“EPACT 1992”),

1 some additional federal electric and natural gas standards were proposed. The
2 issues in this docket have been generated by another amendment to PURPA,
3 the EISA.

4 **Q. WHAT IS THE FOCUS OF THE EISA AMENDMENTS TO PURPA**
5 **WHICH ARE THE BASIS OF THIS PROCEEDING?**

6 A. The EISA amendments to PURPA that are the focus of this proceeding
7 essentially address three issues. Establishing standards related to Smart Grid
8 investments by electric utilities, resource planning and rate design as it relates
9 to the electric utility industry, and resource planning and rate design as it
10 relates to the natural gas industry.

11 **Q. WITH RESPECT TO THESE AMENDMENTS, WHAT SPECIFIC**
12 **ACTION IS BEING REQUIRED OF STATE REGULATORS?**

13 A. Specifically, state regulatory commissions have a set period of time
14 within which EISA requires that they consider adopting the proposed PURPA
15 Smart Grid standards, and a requirement to consider the adoption of the
16 electric and natural gas resource planning standards and rate design standards.
17 In addition, 16 U.S.C. § 2621(a), (b) and 15 U.S.C. § 3203(a), (c) of PURPA
18 requires state regulatory bodies to adhere to certain procedural guidelines in
19 their consideration of the proposed new standards. These include the
20 requirement that the regulatory body's determination be made after public
21 notice and a hearing and that if a standard is not adopted that the regulatory
22 body shall state in writing why it has not adopted the proposed standard. The

1 current proceeding and any subsequent Commission order should fully satisfy
2 these requirements.

3 **Q. PLEASE BRIEFLY DISCUSS HOW STATES RESPONDED TO THE**
4 **EARLIER REQUIREMENTS OF PURPA.**

5 A. Some of the earlier PURPA energy efficiency standards were adopted
6 by state utility commissions. However, after hearings some standards were not
7 adopted often due to the fact that states determined that they had already
8 examined these issues and adopted comparable standards prior to the PURPA
9 actions. This was essentially the case in South Carolina. In a proceeding to
10 consider proposed PURPA standards involving the electric energy industry, the
11 Commission declined to adopt several standards requiring electric utilities to
12 employ Integrated Resource Planning and other standards related to energy
13 conservation investments. *See* Commission Order No. 94-598 dated June 22,
14 1994, issued in Docket No. 93-748-E. This Commission also declined to adopt
15 some earlier PURPA amendments related to wholesale power purchases. *See*
16 Commission Order No. 93-945 dated October 18, 1993, issued in Docket No.
17 93-231-E. Similarly, utility commissions in other neighboring states, such as
18 Georgia, North Carolina, Florida, and Alabama have considered and declined
19 to adopt some of the earlier PURPA amendments.

20

1 **Q. WHAT ARE YOUR RECOMMENDATIONS WITH REGARD TO THE**
2 **ADOPTION OF THE PROPOSED STANDARDS IN THIS**
3 **PROCEEDING?**

4 A. As I will explain in the remainder of my testimony, it is my opinion that
5 the proposed resource planning and rate design standards, whose overall policy
6 objectives are largely supported by the Company, are unnecessary in South
7 Carolina. The policies of the State, along with the rules of this Commission,
8 have promulgated and support activities that are generally comparable to the
9 proposed PURPA resource planning and rate setting standards.

10

11 **III. EISA SECTION 532 (A)(16): PROPOSED ELECTRIC UTILITY**
12 **RESOURCE PLANNING STANDARDS**

13

14 **Q. WHAT IS REQUIRED BY SECTION 532 (a)(16) OF THE EISA WITH**
15 **RESPECT TO ELECTRIC UTILITY RESOURCE PLANNING?**

16 A. Section 532 (a)(16) of the EISA is titled “Integrated Resource Planning”
17 (“IRP”) and requires that “*Each electric utility shall--*

18 (A) *integrate energy efficiency resources into utility, State, and regional*
19 *plans; and*

20 (B) *adopt policies establishing cost-effective energy efficiency as a*
21 *priority resource.”*

1 In titling this proposed standard “Integrated Resource Planning” along with the
2 proposed standards language the EISA has used a common planning
3 terminology and resource planning practice that has been used for many years
4 in the electric utility industry.

5 **Q. PLEASE DISCUSS THE DEVELOPMENT AND MEANING OF THE**
6 **ELECTRIC RESOURCE PLANNING PROCESS KNOWN AS IRP.**

7 A. During the 1950s and 1960s the low cost of fuel and economies of scale
8 in electric power production kept electricity prices very low and electric
9 resource planning was left largely to the utilities with no great involvement of
10 regulators in the actual planning process. In the 1970s this began to change as
11 a number of circumstances led to rapidly escalating costs of electricity. These
12 factors included the 1970 Clean Air Act requiring additional emissions controls
13 on new coal plants, the first OPEC oil embargo in 1973, and the Fuel Use Act
14 in 1978, to name a few.

15 As a consequence of these and other events the average price of
16 electricity rose dramatically, and coupled with increasing concern over the
17 environment, led to a re-evaluation of long term electric resource planning.
18 Public utility commissions nationwide became more involved in the electric
19 resource planning process and there was an increased emphasis on the use of
20 energy efficiency and other demand-side resources and renewable energy
21 resources. Over time, the long term electric resource planning evolved into
22 today’s IRP process which signifies that both demand-side (note that energy

1 efficiency is a sub-set of all the demand-side options) and supply-side options
2 are used in developing a long term electric resource plan.

3 **Q. PLEASE DESCRIBE THE ELECTRIC RESOURCE PLANNING**
4 **PROCESS IN SOUTH CAROLINA.**

5 A. South Carolina Code of Laws Section § 58-33-430 requires the
6 Company to file an annual plan with a ten-year forecast of the demand and the
7 energy resources it is proposing to meet its forecast demand. This is usually
8 filed in conjunction with an electric utility resource plan required by § 58-37-
9 40, which is actually titled “Integrated Resource Plan” and requires that
10 electric utilities file a fifteen year IRP plan updated at least every three years.
11 Further, Section § 58-37-10(2) indicates this IRP filed by electric utilities must
12 include the electric utilities’ plans for meeting their future energy demand “in
13 an economic and reliable manner, including both demand-side and supply-side
14 options.” These statutes indicate that the State’s policy in electric resource
15 planning includes the development of an IRP which integrates energy
16 efficiency resources into the mix of potential resource options which is what
17 the proposed EISA standard set forth in Section 532 (a)(16)(A) requires.
18 These South Carolina resource planning statutes also require that demand-side
19 options be considered in terms of economy and reliability, which is consistent
20 with the second EISA proposed standard contained in Section 532 (a)(16)(B).

21

1 **Q. HOW HAS THE IRP PROCESS IN SOUTH CAROLINA EVOLVED**
2 **OVER THE YEARS?**

3 A. In the late 1980s and early 1990s, there was a nationwide focus on and
4 implementation of a comprehensive IRP process. Over time, as fuel and
5 capacity costs declined through the 1990s, as electric competition became a
6 major movement in the industry, and as the need for new generation resources
7 waned, the IRP process as originally conceived was viewed as overbearing. In
8 addition, lower fuel cost and new generation technologies made many demand-
9 side management (“DSM”) programs less cost effective than they appeared to
10 be in the 1970s and 1980s. In 1998, the Commission revised the then
11 governing IRP rules and adopted a more streamlined procedure found in
12 Docket No. 87-223-E, Order No. 98-502, July 2, 1998. These streamlined
13 procedures remain in effect today.

14 **Q. DOES THE COMPANY’S CURRENT RESOURCE PLAN**
15 **INCORPORATE ANY DEMAND-SIDE OR ENERGY EFFICIENCY**
16 **RESOURCES?**

17 A. Yes. The Company has historically supported energy conservation
18 activities in a variety of ways. In addition to the recent filing made by SCE&G
19 in Docket No. 2009-261-E, the Company has several ongoing energy
20 efficiency initiatives which it generally classifies into three categories. The
21 first category is customer information programs. These are basically programs
22 aimed at consumer education and awareness as it relates to energy efficiency.

1 These customer education efforts are also used to inform the customers of
2 other demand-side programs offered by the Company. These ongoing
3 educational efforts include:

- 4 • Bill Inserts targeted customers promoting the Low-Income Home
5 Energy Assistance Program (LIHEAP).
- 6 • Brochures and other printed materials providing energy saving tips.
- 7 • News releases distributed to print and broadcast media.
- 8 • Web site energy saving tips and other conservation information.
- 9 • Weatherization project where SCE&G and its partners target low-
10 income homes for weatherization. SCE&G employees volunteer their
11 time to assist the effort.
- 12 • Speakers bureau where representatives from SCE&G talk to local
13 organizations about energy conservation.
- 14 • Support of Energy Awareness Month
- 15 •
- 16 •
- 17 •

18 **Q. DOES THE COMPANY’S CUSTOMER INFORMATION PROGRAMS**
19 **TAKE FULL ADVANTAGE OF THE INTERNET TO SHARE ENERGY**
20 **EFFICIENCY INFORMATION WITH AS MANY CUSTOMERS AS**
21 **POSSIBLE?**

22 A. Yes, the Company has an extensive web-based Information and
23 Services Program accessible through the internet. In addition to accessing
24 energy conservation information including video instruction on weatherization
25 and energy tips, customers are able to access their current and historical
26 consumption data, analyze trends, weather impacts and spikes in consumption.

1 **Q. PLEASE DESCRIBE THE SECOND CATEGORY OF DEMAND-SIDE**
2 **PROGRAMS HISTORICALLY OFFERED BY SCE&G.**

3 A. The second category of demand-side programs the Company lists in its
4 2009 IRP are titled as energy conservation programs. The Company lists the
5 following three programs under this category:

- 6 • Value Visit Program – A Company energy expert actually visits a
7 customer's home and guides them in their purchase of energy related
8 equipment and materials such as heating and cooling systems, duct
9 insulation, attic insulation, storm windows, etc. The Company also
10 offers financing for qualified customers. There is a \$25 fee for this visit
11 but this charge is reimbursed if the customer implements any suggested
12 upgrade within 90 days of the visit.
- 13 • Rate 6 Energy Saver / Energy Conservation Program – A program that
14 offers lower electric rates to homeowners and home builders who
15 upgrade their existing homes or build their new homes to a high level of
16 energy efficiency with a reduced electric rate.
- 17 • Seasonal Rates – Rates that are designed with components that vary by
18 season such that energy provided in the peak usage season is charged a
19 premium to encourage conservation.

20 •
21 •
22 •
23 **Q. PLEASE DESCRIBE THE THIRD CATEGORY OF DEMAND-SIDE**
24 **PROGRAMS HISTORICALLY OFFERED BY SCE&G.**

25 A. The third category of demand-side programs offered by the Company is
26 categorized as load management programs. These include:

- 27 • Standby generation program – A program introduced in 1990 and
28 modified in 2000, it allows the Company to offer financial credits to
29 retail and wholesale customers who have standby generation that the
30 Company can request be turned on at appropriate times.
- 31 • Interruptible load programs – These are programs that reduce
32 participating customer's energy demand at those times when energy
33 demands are highest, or at their peak.

- Real time pricing – A program that varies price by the time of day, encouraging customers to move their demand from peak to off-peak hours.

Q. DO YOU BELIEVE THAT THIS COMMISSION SHOULD ADOPT THE PROPOSED FEDERAL IRP STANDARD?

A. The Company does not oppose the energy efficiency focus of the proposed standards simply based on the fact that the State’s current planning guidelines and the Company’s current IRP procedure already promote the actions proposed by these federal standards. However, the Company would oppose adopting the proposed Federal standards for two reasons. First, the standard calls for State and regional plans. This would require that all South Carolina electric utilities, including the regulated electric utilities, electric cooperatives, municipal utilities, along with utilities in other states, to develop their IRPs in a collective fashion. It would be very difficult for the Commission to enforce such a planning requirement on utilities in other states, and neither SCE&G nor any other single electric utility is in a position to be able to consolidate its IRP into a statewide or regional plan.

The second point relates to the proposal that energy efficiency be treated as a “priority resource.” SCE&G supports the evaluation of all viable resources, including energy efficiency, on a comparable footing. However, it is unclear how a resource plan would treat energy efficiency as a priority above other resources. For example, does this mean that if an energy efficiency

1 resource costs twenty-five per cent more than another resource, that the energy
2 efficiency program be adopted? What about an energy efficiency program that
3 cost thirty-five per cent more than other options, should this too be adopted?
4 Consequently, SCE&G does not believe that the adoption of this “priority
5 resource” proposed standard is workable without a clear understanding as to
6 the meaning and intent of the term “priority resource.”
7

8 **IV. EISA SECTION 532 (a)(17): PROPOSED ELECTRIC UTILITY**
9 **RATE DESIGN STANDARDS**
10

11
12 **Q. WHAT IS REQUIRED BY THE EISA WITH RESPECT TO THIS**
13 **PROPOSED RATE DESIGN STANDARD?**

14 A. The EISA requires that, “*the rates allowed to be charged by any electric*
15 *utility shall (i) align utility incentives with the delivery of cost-effective energy*
16 *efficiency; and (ii) promote energy efficiency investments.*” In complying with
17 this standard, “*each State regulatory authority and each nonregulated utility*
18 *shall consider--*
19 *(i) removing the throughput incentive and other regulatory and management*
20 *disincentives to energy efficiency;*
21 *(ii) providing utility incentives for the successful management of energy*
22 *efficiency programs;*

1 (iii) including the impact on adoption of energy efficiency as 1 of the goals of
2 retail rate design, recognizing that energy efficiency must be balanced with
3 other objectives;
4 (iv) adopting rate designs that encourage energy efficiency for each customer
5 class;
6 (v) allowing timely recovery of energy efficiency-related costs; and
7 (vi) offering home energy audits, offering demand response programs,
8 publicizing the financial and environmental benefits associated with making
9 home energy efficiency improvements, and educating homeowners about all
10 existing Federal and State incentives, including the availability of low-cost
11 loans, that make energy efficiency improvements more affordable.”

12 **Q. WITH RESPECT TO THE FIRST POINT, “REMOVING THE**
13 **THROUGHPUT INCENTIVE AND OTHER REGULATORY AND**
14 **MANAGEMENT DISINCENTIVES,” PLEASE DISCUSS WHY THESE**
15 **ISSUES MAY BE BARRIERS TO THE PROMOTION OF ENERGY**
16 **EFFICIENCY WITHIN THE NORMAL REGULATORY**
17 **FRAMEWORK.**

18 A. Within the standard regulatory rate-setting paradigm there are several
19 barriers or disincentives that result in negative consequences should an electric
20 utility invest in energy efficiency resources. One of these is the throughput
21 disincentive, which comes about due to the fact that with traditional regulation
22 there is a disincentive for a utility to encourage conservation simply because it

1 reduces a utility's kilowatt per hour ("kWh") sales, thereby reducing its
2 revenues and earnings. This throughput disincentive has been recognized as
3 one major disincentive by the National Association of Regulatory Utility
4 Commissioners ("NARUC") which discussed this very point in a recent report
5 (September 2007) stating "*traditional regulation may lead to unintended*
6 *disincentives for the utility promotion of end-use efficiency because revenues*
7 *are directly tied to the throughput of electricity and gas sold.*"¹ Similarly, a
8 report regarding energy efficiency investments from the U.S. Department of
9 Energy also identified this throughput disincentive under traditional regulatory
10 structures.²

11 Another regulatory and management disincentive to investing in energy
12 efficiency within the standard regulatory paradigm is the lack of sufficient and
13 timely cost recovery coupled with the risk of under-recovery of costs or even
14 cost disallowances.³ A third disincentive is related to the simple fact that
15 absent provisions otherwise, as compared to investing in supply side resources,

¹ "Decoupling for Electric & Gas Utilities: Frequently Asked Questions," NARUC, Sept., 2007, page 2.

² "State and Regional Policies That Promote Energy Efficiency Programs Carried Out By Electric and Gas Utilities," U. S. Department of Energy, Report to the Congress, March, 2007, p. 15.

³ This lack of timely cost recovery has been cited in the March 2007 Department of Energy report cited above (at p 13) and in the "National Action Plan for Energy Efficiency," July, 2006, p. 2-1, at <http://www.epa.gov/cleanenergy/energy-programs/napee/resources/action-plan.html>.

1 an investment in energy efficiency does not provide a comparable earnings
2 opportunity for a utility.⁴

3 **Q. WHAT CHANGES ARE NECESSARY TO RATE DESIGN AND**
4 **STANDARD REGULATORY PRACTICES TO ADDRESS THE**
5 **THROUGHPUT AND OTHER REGULATORY DISINCENTIVES TO**
6 **INVESTMENTS IN ENERGY EFFICIENCY?**

7 A. To remove these regulatory disincentives to investments in energy
8 efficiency requires removing the throughput disincentive and providing for the
9 timely recovery of all energy efficiency related costs, including a return on
10 energy efficiency investments and the recovery of lost net margin revenue. To
11 further incent investments in energy efficiency, there should be some
12 additional financial incentive for utility-sponsored efficiency programs.

13 **Q. WHAT SPECIFIC RATE DESIGN CHANGES ARE NECESSARY TO**
14 **ADDRESS THE THROUGHPUT ISSUE?**

15 A. With respect to this issue, recognize that the throughput disincentive is
16 manifested when an energy efficiency investment leads to a reduction in kWh
17 sales and the related revenues reduce a utility's margins. Given this concern,
18 an effective energy efficiency cost recovery mechanism that helps overcome
19 the throughput issue should include the ability for a utility to earn a return on
20 energy efficiency investments and the recovery of lost net margin revenue.

⁴ IBID

1 This will help offset the loss of margins associated with the reduction in sales
2 from energy efficiency investments.

3 A second issue that arises with a reduction in sales revenues is the fact
4 that the utility also loses the recovery of some portion of its fixed costs. It
5 should be recognized that a utility's fixed cost, by and large, are investments
6 made to provide the energy needs of current and future customers.
7 Consequently, when a customer reduces their consumption patterns through
8 energy efficiency, the utility will lose the recovery of some portion of that
9 customer's fixed cost until rates are re-set at that utility's next rate case.

10 **Q. WHAT CHANGES ARE NECESSARY TO TRADITIONAL RATE**
11 **DESIGN PRACTICES TO ADDRESS THE COST RECOVERY**
12 **DISINCENTIVE YOU MENTIONED EARLIER?**

13 A. The changes required of rate design would address four basic
14 considerations: (1) what regulatory mechanism will be used to recover the cost
15 of the energy efficiency program, (2) what costs should be recovered, (3) how
16 long should it take to recover the total cost of an energy efficiency investment,
17 and (4) how soon to start recovering the costs. Addressing each of these cost
18 recovery issues in a positive way will remove these cost recovery disincentives
19 associated with investments in energy efficiency.

20 With respect to the first point, what regulatory mechanism should be
21 used, expenditures in energy efficiency programs are usually recovered in the
22 following ways:

- 1 ▪ A periodically updated cost recovery rider of costs that can be rate
2 based or expensed,
- 3
- 4 ▪ Rate case recovery of costs based on actual deferred energy efficiency
5 investment recovered over a period of several years, which can include
6 a true up mechanism in the next rate case, or a
- 7
- 8 ▪ Recovery of costs based on some annual forward looking estimate of
9 energy efficiency investment with or without a true up.
- 10

11 **Q. WHAT ARE THE APPROPRIATE COSTS TO BE RECOVERED BY A**
12 **UTILITY FOR ITS INVESTMENT IN ENERGY EFFICIENCY?**

13 A. The basic costs that should be recovered begin with the total out-of-
14 pocket costs invested by the utility in the energy efficiency program. This
15 includes not only the dollars spent for any energy saving device or asset, but
16 should include those expenditures related to such things as advertising or
17 customer services.

18 A second cost that should be recovered is a return on the dollars
19 invested. While this cost recovery item is obviously aimed at making
20 investments in energy efficiency, it is also true that these dollars represent lost
21 opportunity costs should they not be recovered by the utility. To explain, most
22 existing regulatory policies are vague about investments in energy efficiency.
23 Under traditional regulation, investor-owned utilities earn a return on capital
24 invested in generation, transmission, and distribution. Unless given the
25 opportunity to earn a return on energy efficiency investments, a utility has a
26 clear financial incentive to prefer investments in conventional assets, because
27 these assets contribute to enhanced shareholder value.

1 Finally, in most jurisdictions there is the issue of the recovery of costs
2 related to lost revenues. To explain, a disincentive for utilities to invest in
3 energy efficiency is the simple fact, as mentioned earlier in the throughput
4 discussion, that investments in energy efficiency are aimed at reducing a
5 utility's sale of kWhs. Therefore, absent a utility recovering the fixed costs
6 and earnings associated with the "lost" kWhs sold, a utility might not have the
7 same incentive to invest in energy efficiency programs.

8 **Q. WITH RESPECT TO THE OTHER TWO COST RECOVERY ISSUES**
9 **YOU MENTIONED, HOW QUICKLY SHOULD THESE ENERGY**
10 **EFFICIENCY INVESTMENT COSTS BEGIN TO BE RECOVERED**
11 **AND OVER WHAT TIMEFRAME?**

12 A. This issue specifically addresses the proposed standard point number
13 (v), where this particular proposed standard recognizes that the promotion of
14 energy efficiency investments requires "allowing the timely recovery of energy
15 efficiency related costs."⁵ I agree, and I would interpret this standard to mean
16 that the recovery of energy efficiency investment costs should begin as soon as
17 practical after the costs are incurred and that the length of time to recover the
18 costs be no more than three to five years, dependent upon the program.

⁵ This lack of timely cost recovery has been cited in the March 2007 Department of Energy report cited above (at p 13) and in the "National Action Plan for Energy Efficiency," July, 2006, p. 2-1, at <http://www.epa.gov/cleanenergy/energy-programs/napee/resources/action-plan.html>

1 **Q. DOES THE COMPANY SUPPORT THE ADOPTION OF THE**
2 **PROPOSED STANDARD THAT WOULD CALL FOR RATES TO BE**
3 **DESIGNED TO REMOVE THE THROUGHPUT, COST AND OTHER**
4 **DISINCENTIVES ASSOCIATED WITH ELECTRIC UTILITIES**
5 **INVESTING IN ENERGY EFFICIENCY PROGRAMS?**

6 A. The Company agrees that the principles expressed in these two
7 standards are reasonable and that rates should be designed to remove these
8 disincentives. Therefore, the Company would not oppose the adoption of these
9 proposed standards removing management disincentives for investments in
10 energy efficiency and providing timely cost recovery. However, the Company
11 would suggest that the Commission does not need to adopt these standards as it
12 already has the authority and even has an ongoing docket (2009-261-E)
13 addressing these issues for the Company. In addition, SCE&G suggests that
14 any cost recovery mechanism should be addressed on a company specific basis
15 simply due to the fact that the type of cost recovery mechanism may change
16 based on a specific utility's energy efficiency investments. For example, in the
17 Company's recent filing in Docket Number 2009-261-E it has proposed a cost
18 recovery mechanism that provides for the recovery of costs related to energy
19 efficiency programs in a way that properly addresses the various cost-recovery
20 disincentives discussed above. The Company's proposed cost recovery
21 mechanism is an annually adjusted rider that recovers all prudent demand-side
22 costs over a five year period, provides for an incentive return, and allows

1 recovery of lost net margins. Should the Commission adopt this proposed cost
2 recovery mechanism it would provide the Company with the proper financial
3 incentive to promote and encourage energy efficiency programs and regulators
4 would create a regulatory atmosphere that more closely aligned the interest of
5 conservation-minded customers with a utility's own customer service and
6 financial interest.

7 **Q. THE SECOND RATE DESIGN PROPOSED STANDARD DEALT**
8 **WITH THE IDEA “OF PROVIDING UTILITIES INCENTIVES FOR**
9 **THE SUCCESSFUL MANAGEMENT OF ENERGY EFFICIENCY**
10 **PROGRAMS.” WHAT TYPE INCENTIVES COULD BE USED TO**
11 **ACHIEVE THIS STANDARD?**

12 A. At a minimum, as discussed earlier, this standard requires that the
13 regulatory process allow the utility the timely recovery of all appropriate costs
14 and the ability to earn a comparable return on energy efficiency investments.
15 Beyond this, there are two categories of incentives related to the successful
16 management of energy efficiency programs. One category of incentive is
17 targeted at the customer, the other at the utility. With respect to incentives
18 aimed at the customer, in many cases the success or failure of an energy
19 efficiency program relies on the customer more so than the utility – this
20 includes both the customer being willing to participate in the program as well
21 as the customer's actions fully embracing the energy efficiency program.
22 Depending on the program, these customer-based incentives can take a variety

1 of forms, would be approved by the Commission, and any related customer-
2 based incentive costs should be recovered as an approved program cost.

3 **Q. PLEASE DISCUSS THE SECOND TYPE OF INCENTIVE YOU**
4 **MENTIONED, THE MANAGEMENT BASED INCENTIVE.**

5 A. The second category of incentives would be aimed at utility
6 management and be based upon implementing and managing the energy
7 efficiency programs. Note that these management focused incentives should
8 be distinguished from simply providing the utility the opportunity to earn a
9 comparable return on investments in energy efficiency programs. These
10 management-based incentives would be the result of a policy decision by the
11 Commission to promote investments in energy efficiency programs over
12 investments in traditional supply-side resources by making the energy
13 efficiency investments financially attractive than supply side investments.

14 One type of management based incentive is an enhanced return
15 provided to dollars invested in energy efficiency programs. For example,
16 Nevada provides for a straightforward 5% additional return on equity on
17 energy efficiency investments.⁶ This is similar to what the Company has
18 proposed in its energy efficiency cost recovery rider mentioned above and
19 presented to the Commission in Docket Number 2009-261-E, although the
20 Company's proposed incentive is only 3% as compared to Nevada's 5%.

⁶ National Action Plan for Energy Efficiency, July 2006 at 2-14,
<http://www.epa.gov/cleanenergy/energy-programs/napee/resources/action-plan.html>

1 **Q. SHOULD THIS COMMISSION ADOPT THE PROPOSED ENERGY**
2 **EFFICIENCY INCENTIVE STANDARD THAT WOULD CALL FOR**
3 **RATES TO BE DESIGNED TO PROVIDE INCENTIVES FOR THE**
4 **SUCCESSFUL MANAGEMENT OF ENERGY EFFICIENCY**
5 **PROGRAMS?**

6 A. The Company would agree that the principles expressed in this standard
7 are reasonable, thus the Company would not oppose the adoption of this
8 standard. However, the Company would suggest that the adoption is
9 unnecessary based on the fact that it has an ongoing docket (2009-261-E)
10 addressing the issues of cost recovery and an incentive mechanism for its
11 energy efficiency investments. However, as stated with regard to the previous
12 rate design standards discussed above, the Company believes that such a
13 mechanism could be different for each company and should therefore be
14 supported in a different proceeding on a company specific basis.

15 **Q. THE THIRD AND FOURTH PROPOSED STANDARDS DEAL WITH**
16 **DEVELOPING RATE DESIGNS THAT ENCOURAGE ENERGY**
17 **EFFICIENCY. HOW WOULD THIS STANDARD BE**
18 **IMPLEMENTED?**

19 A. The basic idea behind such a standard is the belief that a utility's rate
20 structure can play a role in encouraging customers to save energy.
21 Theoretically, a variety of rate designs can encourage end-use energy
22 efficiency, such as time-of-use rates, seasonal rates, inclining (or increasing)

1 block rates, real time pricing (also called dynamic pricing), and critical peak
2 pricing. In virtually all of these rate designs the objective is either to reduce
3 the customers' energy usage or to move customers from using peak, higher
4 costs energy, to using off-peak, lower cost energy. In practice, the success of
5 these rate designs in terms of energy efficiency gains has been mixed.

6 **Q. DOES SCE&G CURRENTLY USE ANY OF THESE CONSERVATION**
7 **ENCOURAGING RATE DESIGNS?**

8 A. Yes, the Company currently has a time-of-use tariff for residential, and
9 both large and small general service customers. The Company also has
10 inverted block rates for summertime electric usage that may help to promote
11 more efficient electric usage in the summer as well as offering rates for thermal
12 storage and interruptible rates, both of which are designed to reduce peak
13 energy demand.

14 **Q. SHOULD THE COMMISSION ADOPT THESE PROPOSED RATE**
15 **DESIGN STANDARDS?**

16 A. The Company would agree that the principles expressed in these
17 standards are reasonable, particularly the statement in the proposed standards
18 that energy efficiency rate design must be balanced with other objectives. This
19 is particularly critical, because in practice, rate design can be an incredibly
20 contentious issue with pros and cons related to almost every type rate design
21 one can offer. Moreover, some parties may seek to apply these standards in
22 such a way that could essentially force the utilities to offer rate designs, under

1 the pretense of promoting energy efficiency, that provide few energy saving
2 benefits while shifting costs to other customers. Therefore, if the Commission
3 were to adopt these proposed standards the Company would recommend that
4 the Order adopting these standards include some recognition of the importance
5 of protecting the interests of all ratepayers, the minimization of cost shifting,
6 and some type of cost justification in any energy efficiency rate designs.
7 Given these concerns, the Company would recommend a better alternative than
8 adopting the proposed standards would be for the Commission to choose not to
9 adopt these standards explicitly, but rather simply to continue to promote and
10 encourage appropriate and innovative rate designs that encourage energy
11 efficiency.

12 **Q. THE SIXTH PROPOSED RATE DESIGN STANDARD DEALS WITH**
13 **THE UTILITY OFFERING HOME ENERGY AUDITS, DEMAND**
14 **RESPONSE PROGRAMS, AND CUSTOMER EDUCATION. DOES**
15 **THE COMPANY ENGAGE IN THESE ACTIVITIES?**

16 A. Yes. The Company offers at no charge to its customers extensive web-
17 based information on all types of home energy audits and energy saving ideas
18 and programs. With respect to home energy audits, these are available at the
19 Company's web site as well as a provision for in-home energy consultation
20 which includes both a web-based consultation questionnaire and an application
21 for what the Company calls a "Value Visit." In addition, at this same site there
22 are various types of information on energy efficiency for residential customers,

1 including information on tax credits, how to weatherize your home, assistance
2 programs, and additional information. In summary, the Company is already
3 doing most of the activities the proposed standard would prescribe.

4 **Q. SHOULD THE COMMISSION ADOPT THE ENERGY AUDIT AND**
5 **EDUCATION BASED PROPOSED STANDARDS?**

6 A. The Company would agree that the principles expressed in this standard
7 are reasonable and many of the standard's proposals are already being done by
8 the Company. Therefore, the adoption of this standard is unnecessary so the
9 Company would recommend against the adoption of this proposed standard.
10 However, the Company would recommend that if the Commission adopts this
11 standard that it continues to make the adoption of any of the programs
12 contained in the proposed standard subject to a Commission review of the costs
13 and expected benefits and Commission approval prior to the adoption of any of
14 the programs in the proposed standard. Such a stipulation should provide the
15 Commission sufficient flexibility to promote or not promote the programs as
16 presented, and be able to promote other, more cost effective programs if this
17 circumstance occurs.

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1 **V. EISA SECTION 532(b)(5): PROPOSED NATURAL GAS**
2 **RESOURCE PLANNING AND RATE DESIGN STANDARD**
3

4 **Q. SPECIFICALLY, WHAT IS REQUIRED BY EISA WITH RESPECT TO**
5 **THE PROPOSED GAS RESOURCE PLANNING STANDARD FOUND**
6 **IN THE EISA SECTION 532(b)(5)?**

7 A. The resource planning standard proposed by EISA is that “[e]ach natural gas
8 utility shall —

9 (A) *integrate energy efficiency resources into the plans and planning*
10 *processes of the natural gas utility; and*

11 (B) *adopt policies that establish energy efficiency as a priority*
12 *resource in the plans and planning processes of the natural gas*
13 *utility.”*

14 **Q. DO YOU RECOMMEND THE ADOPTION OF PART (A) OF THE**
15 **PROPOSED RESOURCE PLANNING STANDARD?**

16 A. It is not necessary to adopt this standard. This standard prescribes the
17 use of an IRP process for gas utility resource planning purposes. This
18 Commission (Order No. 93-145, Feb. 8, 1993) actually had a gas IRP process
19 required of its natural gas utilities. However, this planning requirement was
20 removed some four years later in Order No. 97-404, and this rescission of the
21 earlier IRP rules followed specific legislative action that removed this
22 requirement from gas utilities. *See* S.C. Code Ann. § 58-37-40. Consequently,
23 it is a specific, legislative defined policy of the State not to require natural gas

1 utilities to provide IRPs in their resource planning activities. Nevertheless, in
2 its resource planning for future gas demand the Company does incorporate
3 assumptions that capture both historical and projected increases in energy
4 efficiency, and in so doing treat projected improvements in energy efficiency
5 and conservation as a dependable resource.

6 **Q. SHOULD PART (B) OF THE PROPOSED RESOURCE PLANNING**
7 **STANDARD, “ADOPTING POLICIES THAT ESTABLISH ENERGY**
8 **EFFICIENCY AS A PRIORITY RESOURCE,” BE ADOPTED FOR**
9 **NATURAL GAS UTILITIES IN SOUTH CAROLINA?**

10 A. No. It is my opinion that the resource planning procedures used by the
11 Company already incorporate energy efficiency as a priority resource.

12 **Q. PLEASE DISCUSS HOW THE COMPANY’S NATURAL GAS**
13 **RESOURCE PLANNING PROCESS INCORPORATES ENERGY**
14 **EFFICIENCY AS A “PRIORITY RESOURCE.”**

15 A. The first way the Company treats energy efficiency as a priority
16 resource in its resource planning process relates back to how the Company
17 forecasts and plans its future resource needs. The Company bases its future
18 resource needs on forecasts that use historical data. This historical data
19 incorporates a variable that captures the impacts of historical upgrades in
20 appliance efficiency and home building code upgrades, and these impacts are
21 reflected in a trend of declining gas usage on a per customer basis. These
22 historical energy efficiency trends are then applied to the Company’s future

1 demand forecast, thereby anticipating a reduction in future gas demand due to
2 future projected increases in appliance efficiency and increasing building code
3 standards. Consequently, the Company has effectively designated declines in
4 future gas demand from energy efficiency resources as having an absolute,
5 known impact on future gas demands – which said another way makes the
6 expectation of future efficiency gains a priority resource in the Company’s
7 future resource planning.

8 **Q. PLEASE DISCUSS THE SECOND WAY THE COMPANY’S NATURAL**
9 **GAS RESOURCE PLANNING PROCESS INCORPORATES ENERGY**
10 **EFFICIENCY AS A “PRIORITY RESOURCE.”**

11 A. The second way the Company treats energy efficiency resources as
12 priority resources is simply based on its direct promotion of energy efficiency.
13 It is critical to recognize that as a combination utility, many of SCE&G's
14 activities related to promoting energy efficiency can impact both natural gas
15 and electric consumers. For example, the Company's web site contains a
16 significant amount of information related to energy efficiency, conservation,
17 tax credits, and other ideas, many of which are just as applicable to gas
18 customers as to electric. These web based services have almost 219,000
19 customers registered and include:

- 20 • Energy Analyzer: Energy Analyzer, added in 2004, is a 24 month bill
21 analysis tool to identify a customer’s seasonal usages and target the best
22 ways to reduce demand. There were almost 100,000 visits to the
23 Energy Analyzer tool in 2008.

24

- Energy Audit: The Energy Audit tool leads customers through the process of creating a complete inventory of their home's insulation and appliance efficiency and allows customers to see the energy and financial savings of upgrades before making an investment. Since August 2008, almost 3,700 customers have used the Energy Audit tool.
- Customer Awareness Information: The SCE&G Web site supports all communication efforts to promote energy savings tips through a new section called "Save Energy & Money" and through the Energy Audit library. Information is also provided on the latest tax credits offered by the Emergency Economic Stabilization Act of 2008, including links to help customers explore and learn how they can take advantage of these credits. For business customers, online information also includes: power quality technical assistance, conversion assistance, new construction information, expert energy assistance and more.

Also, SCE&G continues to proactively educate its customers and create awareness of issues related to energy efficiency and conservation through the following efforts:

- Bill Inserts/Messages
- SCE&G Business Offices literature
- Project Share – On October 8, 2008, SCE&G also announced a corporate gift of \$250,000 to Project SHARE and provided a dollar-for-dollar match on customer and employee donations up to \$100,000 through the end of 2008.
- Weatherization projects for combined electric/gas customers
- Speakers Bureau
- Energy Awareness Month (October)
- Public Service Announcements

1 **Q. PLEASE SUMMARIZE WHY THE COMMISSION SHOULD NOT**
2 **ADOPT PART (b)(5) OF THE PROPOSED RESOURCE PLANNING**
3 **STANDARD FOR NATURAL GAS UTILITIES IN SOUTH CAROLINA.**

4 A. It is my opinion that this Commission and the Company already treat
5 energy efficiency as a priority resource. I would also caution that part (b)(5) of
6 the proposed standard is ambiguous and would prove to be burdensome and
7 costly to implement without a commensurate benefit to customers or to the
8 promotion of more energy efficiency.

9 **Q. WHY DO YOU BELIEVE THAT PART (b)(5) OF THIS PROPOSED**
10 **STANDARD IS AMBIGUOUS?**

11 A. First, while the law and many industry publications refer to the EISA
12 proposals as “standards,” I would caution the Commission to realize that these
13 are not standards in the normal way that many people would use this term.
14 Usually, a standard would be defined with some very specific and measureable
15 goals. However, this “standard” is really an ill-defined broad based proposal.
16 Specifically, there is no definition of the term “priority resource” or how this
17 term would identify what is a “priority resource.” Consequently, how the
18 Company may define the term “priority resource” might be quite different
19 from another party’s interpretation. Therefore, without this Commission
20 providing some strict definition as to what is a “priority resource” the term is
21 open for interpretation. A second related point is based on the fact that the
22 Company supports the basic goal of making energy efficiency resources a

1 reasonable part of the planning mix. However, absent a better definition, if
2 energy resources are designated a “priority resource” does this mean these
3 resources are considered absent a consideration of cost or reliability? For
4 example, does treating something as a “priority resource” mean that if an
5 energy efficiency resource costs twenty-five percent more than another
6 resource, that the energy efficiency program must be adopted? What about
7 energy efficiency programs that cost fifty or one hundred percent more than
8 other options; should these too be adopted? SCE&G currently evaluates and
9 secures future resource needs to meet the growth requirements of its firm sales
10 customers, after consideration of a reasonable level of expected reductions in
11 demand due to future impacts of energy efficiency, consistent with its overall
12 “best cost” strategy. A legitimate question is whether adopting energy
13 efficiency as a “priority resource” would circumvent this “best cost” strategy?

14 A third point to recognize is that the adoption of energy efficiency
15 standards or goals, such as making energy efficiency a “priority resource,”
16 must not ignore the market forces that are critical to the success of most energy
17 efficiency programs. These market forces include factors such as cost and
18 what motivates customers to participate and make use of these programs.
19 Additionally, during a time of a contracting economy such as we are
20 experiencing today, customers may be reluctant to spend their money on
21 energy efficiency just as they are not spending their money on other major
22 purchases. Consequently, market forces are particularly important to the

1 process of setting goals and incentives. For these reasons, any energy
2 efficiency standards must have flexibility to adapt to the impacts of market
3 forces. It is unclear whether designating these resources as “priority resources”
4 allows for this flexibility.

5 In summary, the Company does not believe that the adoption of this
6 “priority resource” proposed standard is workable without a clear
7 understanding as to the meaning and intent of the term “priority resource.”
8 Therefore, the adoption of this proposed standard could not reasonably be
9 implemented without some type of rulemaking by the Commission to define
10 how the “priority resource” standard would be applied.

11

12 **VI. EISA SECTION 532(b)(6): RATE DESIGN MODIFICATIONS**
13 **TO PROMOTE ENERGY EFFICIENCY INVESTMENTS STANDARD**
14

15 **Q. WHAT IS REQUIRED BY THIS EISA AMENDMENT WITH RESPECT**
16 **TO THE PROPOSED NATURAL GAS RATE DESIGN STANDARD?**

17 A. The natural gas rate design standard proposed by the EISA is that “[t]he
18 rates allowed to be charged by a natural gas utility shall align utility
19 incentives with the deployment of cost-effective energy efficiency.” In
20 complying with this standard, “each State regulatory authority and each non-
21 regulated utility shall consider —

22 (i) separating fixed-cost revenue recovery from the volume of
23 transportation or sales service provided to the customer;

- 1 (ii) *providing to utilities incentives for the successful management of*
2 *energy efficiency programs, such as allowing utilities to retain a*
3 *portion of the cost reducing benefits accruing from the*
4 *programs;*
- 5 (iii) *promoting the impact on adoption of energy efficiency as 1 of the*
6 *goals of retail rate design, recognizing that energy efficiency*
7 *must be balanced with other objectives; and*
- 8 (iv) *adopting rate designs that encourage energy efficiency for each*
9 *customer class.”*

10 **Q. WITH RESPECT TO THE PROPOSED STANDARD REQUIRING**
11 **THAT RATES BE DESIGNED SO AS TO “ALIGN UTILITY**
12 **INCENTIVES WITH THE DEPLOYMENT OF COST-EFFECTIVE**
13 **ENERGY EFFICIENCY,” SHOULD THIS PROPOSED STANDARD BE**
14 **ADOPTED?**

15 A. Not necessarily. While the Company agrees with the basic goal of
16 energy conservation, it may not be necessary to adopt this standard. This is
17 due to the fact that the Natural Gas Stabilization Act, S.C. Code of Laws
18 Section 58, Chapter 5, Article 4, is a rate-setting mechanism that in large
19 measure achieves the goals of the proposed standard. For example, this rate
20 setting mechanism allows the Company to annually adjust its rates and provide
21 it with the opportunity to maintain its allowed margins. In so doing, it adjusts
22 the recovery of margin if the Company’s gas sales volume decline, even if

1 these declines are due to energy efficiency programs. Consequently, should
2 the Company actively pursue additional conservation programs, the loss of
3 margins that could accompany such activity is mitigated through this annual
4 adjustment mechanism. In addition, to the extent conservation measures are
5 adopted, this rate setting mechanism helps to promote reduced gas
6 consumption while allowing customers to continue to realize savings in their
7 total gas bill associated with lower gas consumption.

8 **Q. SHOULD THE FOUR SEPARATE PROPOSED POLICY OPTIONS**
9 **SET FORTH IN SECTION 532(B)(6)(I, II, III, AND IV) BE ADOPTED?**

10 A. No. To explain, while the Company agrees with the basic goal of
11 energy efficiency expressed in these standards, some of the proposals have
12 already been implemented while others would likely require additional
13 clarification to implement.

14 **Q. PLEASE EXPLAIN WHY THIS COMMISSION SHOULD NOT ADOPT**
15 **THE PROPOSED POLICY FOUND IN SECTION 532(B)(6)(I,**
16 **“SEPARATING FIXED-COST REVENUE RECOVERY FROM THE**
17 **VOLUME OF TRANSPORTATION OR SALES SERVICE.”**

18 A. This proposed policy option could be considered but the aforementioned
19 rate stabilization process helps to mitigate the margin loss issue.

20

21

1 **Q. PLEASE EXPLAIN WHY THIS COMMISSION SHOULD NOT ADOPT**
2 **THE PROPOSED POLICY FOUND IN SECTION 532(B)(6)(II),**
3 **“PROVIDING TO UTILITIES INCENTIVES FOR THE SUCCESSFUL**
4 **MANAGEMENT OF ENERGY EFFICIENCY PROGRAMS, SUCH AS**
5 **ALLOWING UTILITIES TO RETAIN A PORTION OF THE COST**
6 **REDUCING BENEFITS ACCRUING FROM THE PROGRAMS.”**

7 **A.** While the Company agrees with the objective of this policy option,
8 South Carolina law already allows the Commission to do what is prescribed by
9 this proposed standard. Specifically, Section 58-37-20 allows:

10 The South Carolina Public Service Commission may adopt procedures
11 that encourage electrical utilities and public utilities providing gas
12 services subject to the jurisdiction of the commission to invest in
13 cost-effective energy efficient technologies and energy conservation
14 programs. *If adopted, these procedures must: provide incentives and*
15 *cost recovery* for energy suppliers and distributors who invest in energy
16 supply and end-use technologies that are cost-effective, environmentally
17 acceptable, and reduce energy consumption or demand . . .

18
19 (emphasis added)

20
21 Consequently, the authority to allow a utility to earn an incentive for
22 supporting the promotion of energy efficient programs is already allowed in
23 South Carolina and the Company has proposed just such a mechanism for its
24 proposed energy efficiency investments for its electric customers in Docket
25 Number 2009-261-E. However, as with the proposed electric based incentive,
26 there are a number of issues that will need further consideration if the
27 Commission adopts a gas-based incentive or adopted this unnecessary

1 standard. These issues include defining the type of incentives to be used, the
2 appropriate documentation and filings required of the Company to support the
3 incentive, and any data that must accompany such a filing. In addition, it is
4 possible that the appropriate incentive mechanism and supporting
5 documentation will vary by utility or be different depending upon the specific
6 efficiency program being addressed. Consequently, the Company believes that
7 adoption of this proposed standard is not necessary.

8 **Q. PLEASE EXPLAIN WHY THIS COMMISSION SHOULD NOT ADOPT**
9 **THE PROPOSED POLICY FOUND IN SECTION 532(B)(6)(III),**
10 **“PROMOTING THE IMPACT ON ADOPTION OF ENERGY**
11 **EFFICIENCY AS 1 OF THE GOALS OF RETAIL RATE DESIGN,**
12 **RECOGNIZING THAT ENERGY EFFICIENCY MUST BE**
13 **BALANCED WITH OTHER OBJECTIVES.”**

14 A. The Company believes the Company’s rate setting methodology already
15 complies with this proposal that rate design considerations such as efficiency
16 must be balanced with other considerations. To explain, the Company
17 currently employs the rate stabilization mechanism along with cost-based rates
18 in setting its rates. The rate stabilization mechanism removes some of the
19 financial disincentive the Company might have with respect to investing in
20 energy efficiency programs. In addition, by using cost based rates, from an
21 economic perspective, the Company provides its customers with rates that
22 minimize costs and maximize the utilization of scarce resources. Given these

1 facts, it is reasonable to conclude that the Company's rate setting mechanism
2 already employs the principles expressed in this proposed standard.

3 **Q. PLEASE EXPLAIN WHY THIS COMMISSION SHOULD NOT ADOPT**
4 **THE PROPOSED POLICY FOUND IN SECTION 532(B)(6)(IV),**
5 **"ADOPTING RATE DESIGNS THAT ENCOURAGE ENERGY**
6 **EFFICIENCY FOR EACH CUSTOMER CLASS."**

7 A. While the Company agrees with the basic principles of energy
8 efficiency and conservation expressed in this proposed policy option, the
9 adoption of this proposal is unnecessary. First, as explained in the preceding
10 answer, the Company already employs the rate stabilization mechanism that,
11 along with its cost-based rates, provide the best price signals to customers in
12 terms of promoting efficient gas usage and energy efficiency. Second, the
13 basic idea behind such a proposed standard is the belief that a utility's rate
14 structure can play a critical role in encouraging customers to save energy. This
15 is true to a point, but it leaves open numerous questions regarding cost-based
16 rate designs, equity, and the consideration of rate design with respect to other
17 economic issues. Theoretically, a variety of rate designs can encourage end-
18 use energy efficiency, such as seasonal rates, inclining block rates, real time
19 pricing (also called dynamic pricing), and critical peak pricing. In virtually all
20 of these rate designs, the objective is either to reduce the customers' energy
21 usage or to move customers from using peak, higher cost energy, to using off-
22 peak, lower cost energy. In practice, the success of these rate designs in terms

1 of energy efficiency gains has been mixed. Furthermore, there are a number of
2 natural gas customers who would likely argue that some assumed
3 conservation-based rates are inequitable, not cost-based, and are likely to
4 produce undue hardships and undesired consequences on the affected
5 customers.

6 **Q. WHAT OTHER GAS RATE DESIGNS USED BY SCE&G HELP**
7 **PROMOTE ENERGY EFFICIENCY?**

8 A. The basic gas rate design that encourages conservation and more
9 efficient appliances is the standard rate design used by the Company, and that
10 rate design passes along on almost a dollar for dollar basis the cost of gas.
11 Thus, when gas costs get high, customers see these costs and can adjust their
12 usage or begin to adopt more energy saving ideas.

13 **Q. ARE THERE ANY OTHER REASONS NOT TO ADOPT THE**
14 **PROPOSED RATE DESIGN POLICY OPTIONS (I), (II), (III), AND**
15 **(IV)?**

16 A. Yes, while the Company would agree with the principles expressed in
17 these rate design standards, another reason why it is reluctant to support
18 adoption of these policy options is related to a statement in one of these
19 proposed options that energy efficiency rate design “must be balanced with
20 other objectives.” This balanced approach is particularly critical because, in
21 practice, rate design can be an incredibly contentious issue with pros and cons
22 related to almost every type of rate design one can offer. If these proposed

1 rate-setting policies are adopted, some parties may seek to apply these
2 standards in such a way that could essentially force the utilities to offer rate
3 designs, under the pretense of promoting energy efficiency, that provide few
4 energy saving benefits while shifting costs to other customers. This result may
5 be in conflict with Commission objectives related to rate design or even violate
6 the balanced approach required by the proposed policies themselves.
7 Therefore, if the Commission were to adopt these policy options, the Company
8 would recommend that the order adopting these standards include some
9 recognition of the importance of protecting the interests of all customers, the
10 minimization of cost shifting, and some type of cost justification in any energy
11 efficiency rate designs. In the alternative, the Company would recommend
12 that the Commission choose not to adopt these standards but rather simply to
13 continue to promote and encourage appropriate and innovative rate designs that
14 encourage energy efficiency. The Company would also suggest that as with
15 the prior proposed standards, the Commission should recognize that reducing
16 this broad statement to a rule or guideline would likely require additional
17 rulemaking proceedings and subsequent rate cases.

18 **Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

19 A. Yes.

J. A. WRIGHT, PhD

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Experience Overview

Prior to starting his firm, Dr. Wright was a Client Partner for AT&T Solutions Utilities and Energy Practice and before that a Principal in EDS’ Management Consulting Services. Prior to this Dr. Wright served an eight-year term as a Utility Commissioner for the state of North Carolina. Prior to that, he served three terms in the North Carolina State Senate while he was a senior project engineer for Corning Glass Works on their optical wave guide project in Wilmington, North Carolina. While serving on the North Carolina Utility Commission, he served four years on the National Association of Regulatory Utility Commissioners (NARUC) Electricity Committee. He has served in various other advisory capacities, including the Keystone Committee on Externalities; the North Carolina Radiation Protection Committee, and on an Oversight Committee for a joint North Carolina/New York/ Department of Energy (DOE) project.

Electric Competition Natural Gas, and Regulatory Strategy

- “Energy Deregulation,” March 2001, report of the California State Auditor on the causes of the problems related to high electric prices and blackouts (from May, 2000 through June 2001, and ongoing) in California’s restructured electric marketplace. Dr. Wright was one of three consultants who essentially

researched and prepared the State Auditor’s report.

- Principal author with Dr. Al Danielsen of “*Reliability of Electric Supply In Georgia*,” published by The Bonbright Utilities Center, University of Georgia, June, 2001.
- Presented testimony before the North Carolina Public Utilities Commission on behalf of SCANA Corporation regarding issues related to market power in its merger with Public Service Company of North Carolina, Docket No. G-5, Sub 400; G-3, Sub 0.
- Was the principal author of a report and investigation titled “*An Analysis of Commonwealth Edison’s Planning Process For Achieving Reliability of Supply*,” which was an investigation of the Company’s planning process to meet its statutory obligation for supplying electricity as Illinois transitions to a competitive retail electric market, Illinois Commerce Commission Docket No. 98-0514.
- Co-authored a national study that used computer modeling techniques to quantify the impact of electric competition on the aggregate economy in each of the 48 continental United States.
- Presented testimony to Louisiana Legislative Committee on behalf of Entergy Corporation regarding the various regulatory and technical issues that need to be addressed in the transition to competition.
- Was a panelist on a Southern Gas Association national televised forum on

performance based regulation for the natural gas industry.

- Was the lead policy witness for South Carolina Electric and Gas on obtaining regulatory approval to transfer depreciation reserve from a nuclear plant to T&D depreciation reserve. This is a critical issue in preparing for competition and limiting stranded investment.
- Public Service Company's power and resource acquisitions over a five year period. Developed an overview of Niagara Mohawk Gas' integrated resource planning efforts. This engagement was under a contract from Oak Ridge National Laboratories.

Presentations and Publications

"Energy Deregulation," March 2001, report of the California State Auditor on the causes of the problems related to high electric prices and blackouts (from May, 2000 through June 2001, and ongoing) in California's restructured electric marketplace. Dr. Wright was one of three consultants who essentially researched and prepared the State Auditor's report.

"Low Cost States and Electric Restructuring - The Issue is the Price!" presented to the 1999 Miller Forum on Government, Business and the Economy, University of Southern California, April 19, 1999.

An Analysis of Commonwealth Edison's Planning Process For Achieving Reliability of Supply, Illinois Commerce Commission Docket No. 98-0514.

The Impact of Competition on the Price of Electricity, author, published by L. A. Wright and Associates, November, 1998.

"Retail Competition in the Electric Industry: The Impact on Prices," presented at the 18th Annual Bonbright Center Energy Conference, Atlanta, Georgia, Sept. 10, 1998.

Potential Economic Impacts of Restructuring the Electric Utility Industry, co-author, published by the Small Business Survival Committee, Washington, DC, November, 1997.

"How Deregulation Will Affect Power Quality and Energy Management," presented at the Power Quality and Energy Management Conference co-sponsored by Entergy and EPRI, New Orleans, LA, Nov. 14, 1997.

"Deregulation of the Electric Industry," Proceedings: National Business Energy Forum, June 26, 1997, New Orleans, LA.

"Restructuring The Electric Utility Industry: Theory vs. Reality," presented at the American Bar Association Restructuring Conference, Raleigh, NC, Dec. 5, 1996.

"Alternative Rate Making for the Natural Gas Industry: State Issues," presented at the Tenth Annual NARUC Biennial Regulatory Information Conference, Columbus, Ohio, Sept. 12, 1996.

"Stranded Assets Recovery Issues," presented at the Western Electric Power Institute: Financial Forum, Tucson, Arizona, March 8, 1996.

"Performance Based Regulation for The Natural Gas Industry," panelist on Southern Gas Association's Televised Regulatory Forum, Dallas, Texas, Jan. 18, 1996.

"Industry Structure Should Meet Stakeholder Objectives," Electric Light and Power, Jan., 1996.

"Quantifying the Value of Stranded Investment: A Dynamic Modeling Approach," Proceedings: Implementing Transmission Access and Power Transactions Conference, Denver, Colorado, Dec. 14, 1995.

Comments to FERC in the matter of Notice of Proposed Rulemaking on Open Access, Docket No. 95-9-000, 1995.

"Comparing New York State Electric and Gas Corporation's Non-Utility Generator Payments to Current Avoided Cost Rates," report submitted in support of affidavit filed before FERC in Docket No. EL 95-28-000.

"A Solution To The Transmission Pricing and Stranded Investment Problems" Public Utilities Fortnightly, January 1995.

"Gas Integrated Resource Planning: The Niagara Mohawk Experience," for Martin Marietta Energy Systems, Inc., under contract to the United States Department of Energy, ORNL/SUB/93-03369.

"Future Regulation In the Water Industry - Can We Solve the Problems Before They Happen?" Water, Vol. 29, No. 2, pp. 14-17, Summer 1988.

Testimony

- Provided testimony for Georgia Power in its 2007 Integrated Resource Plan reviewing the plan filed by the Company and discussing how its demand-side proposals were reasonable, (TRC, RIM, PTC), Docket number 24505-U, May, 2007.
- Presented two testimonies before the South Carolina Public Service Commission on behalf of South Carolina Electric and Gas, Duke

Energy and Progress Energy Carolinas in the investigation of adoption of energy efficiency and generation standards related to the Energy Policy Act of 2005, Dockets No. 2005-385-E and No. 2005-386-E, April, 2007.

- Presented testimony before the North Carolina Public Utilities Commission on behalf of Duke Energy and Progress Energy Carolinas in the investigation of adoption of energy efficiency and generation standards related to the Energy Policy Act of 2005, Docket No. E-100, Sub 108 November, 2006.
- Presented testimony before the North Carolina Public Utilities Commission on behalf of Duke Energy in the investigation of Duke Energy's 2006 Integrated Resource Plan, Docket No. E-100, Sub 103, June, 2006.
- Provided testimony for Georgia Power in its 2005 Fuel Adjustment Hearing on the issue of the appropriate pricing methodology for the dispatch and sale of electricity in the Southern Company system, Docket number 19142-U, April, 2005.
- Presented testimony on behalf of South Carolina Electric and Gas Company before the South Carolina Public Utility Commission for South Carolina Pipeline Company related to the inclusion of a generating plant in rate base and to the recovery of RTO (Gridsouth) related costs,

Docket No. 2004-178-E, October, 2004.

- Presented testimony on behalf of Entergy Mississippi before the Mississippi civil court dealing with maintaining the confidentiality of special use contracts, August, 2004.
- Presented rebuttal testimony before the South Carolina Public Utility Commission for South Carolina Pipeline Company related to the reasons for continuing a program that allows flexible, competitive based pricing for large, interruptible customers that have alternative fuels, Docket No. 2004-6-G, May 29, 2004.
- Presented testimony before the Georgia Public Service Commission on the appropriate range for a return on equity earnings band (a form of performance based regulation) to set in a Savannah Electric & Power Company rate case, Docket No. 14618-U, April, 2002.
- Presented testimony before the Georgia Public Service Commission on behalf of Scana Energy Marketing related to affiliate relationships and the appropriate affiliate rules between Atlanta Gas Light Company's regulated and unregulated affiliates. Docket No. 146060-U, August 24, 2001.
- Presented testimony before the North Carolina Public Utilities Commission on behalf of SCANA Corporation regarding issues related

to market power the appropriate affiliate relationship protections necessary in its merger with Public Service Company of North Carolina, Docket No. G-5, Sub 400; G-3, Sub 0.

- Presented testimony before the South Carolina Public Service Commission on behalf of South Carolina Pipeline Corporation regarding issues related to its annual review of gas costs as reflected in its purchase gas adjustment charge, Docket No. 1999-007-G, September, 1999.
- Presented testimony to the South Carolina Public Utility Commission for South Carolina Pipeline Corp. related to acquisition adjustments and regulatory policies related to performance based regulation, Docket No. 90-588-G, June, 1998.
- Testified before the Mississippi Public Service Commission on issues related to the establishment of retail electric competition, including ISO establishment, regional power exchanges, legislation, taxes and regulatory policies, April 16, 17, 1997.
- Support of Transition Proposals filed by Virginia Power Corporation, March, 1997.
- Entergy Arkansas testimony in support of Transition to Competition Filing, 1997.
- Entergy Louisiana testimony in support of Transition to Competition Filing, 1997.

- Support of Performance Based Regulation for GTE South Inc., Docket No. P-19, Sub 277, before the North Carolina Utility Commission, filed Nov. 22, 1995.
- Stranded Cost Regulatory Policy and Recovery Testimony before the South Carolina Public Service Commission, the Commission approved the request Dr. Wright was advocating, Docket No. 95-1000-E, October 27, 1995.

Education

Dr. Wright received a Ph.D. in Economics from North Carolina State University, focusing on regulatory and environmental economics, and is a member of the honor society. He received an MBA in finance from Georgia State University in 1978, graduating with honors. He received a Master of Economics from North Carolina State University in 1991 and was a member of the honor society. He received a B.S. in Chemistry from Valdosta State College in Valdosta, Georgia, graduating Magna Cum Laud.

In addition, he has completed the Michigan State University Regulatory Course, several other NARUC courses on regulation, been an instructor on regulatory issues at several NARUC courses, completed management courses at Corning Glass and financial seminars at Bank Boston and Merrill Lynch dealing with regulation.